FDIC State Profile

Spring 2005

Delaware

For the second consecutive year, Delaware's job growth exceeded the national rate.

- During 2004, Delaware increased jobs by 2.3 percent; more than twice the U.S. rate (See Chart 1). This was the state's highest annual job growth rate in five years.
- **Dover** continued to lead the state in employment growth. Trade, transportation, utilities, and leisure and hospitality were the area's leading industries.
- At 1.4 percent, **Wilmington's** 2004 job growth reached its highest annual rate since 1999. Growth in professional and business services, including temporary jobs, health services, and construction, more than offset continued manufacturing job losses. The area's 3 percent decline in manufacturing jobs during 2004 was slightly higher than the 2003 decline.

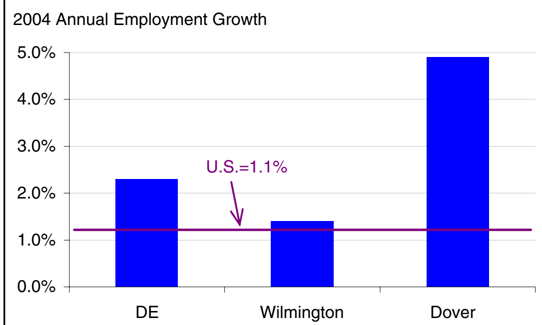
The improving economy had a positive effect on local office market conditions.

- Steady office employment growth in Wilmington contributed to a decline in the office vacancy rate from a cyclical peak of 19.4 percent in first quarter 2004 to 14.1 percent by year-end, and rents stabilized (See Chart 2). Reflecting improved office conditions, three new office buildings were announced for downtown Wilmington.

Job growth in Delaware's financial service sector is driven by real estate.

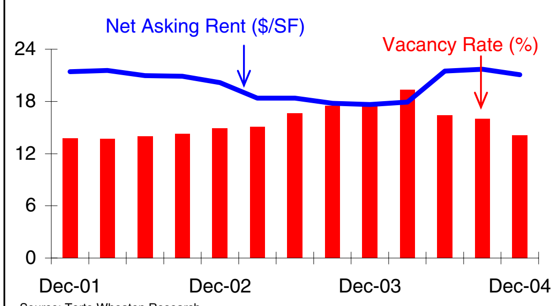
- At 11 percent, Delaware has the highest concentration of financial services (FIRE) employment to total employment among all states in the nation. Real estate jobs accounted for all of Delaware's new FIRE sector jobs in 2004 (See Chart 3). The housing boom and strengthening commercial real estate market have contributed to growth in real estate jobs.
- In contrast with national trends, employment in Delaware's banking industry declined in 2004. Recent announced job cuts by several large financial companies may constrain the state's banking sector job growth in 2005.

Chart 1: In 2004, Delaware's Job Growth Was Double the U.S. Rate



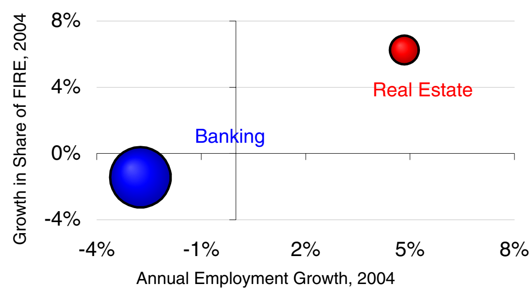
Source: Bureau of Labor Statistics/Haver Analytics

Chart 2: Wilmington's Commercial Real Estate Market Has Firmed



Source: Torto Wheaton Research

Chart 3: Delaware's Real Estate Jobs Grew Faster than Banking Jobs in 2004



Note: Size of bubbles denote relative size of industry.
Source: Bureau of Labor Statistics/Haver Analytics

Credit card lending is a key component of the state's financial service sector.

- Delaware is home to three of the nation's largest credit card lenders and 31 percent of total credit card loans outstanding in the United States.[1]
- Nationwide, credit card lenders reported higher returns-on-assets (ROA) in 2004 reflecting increasing short-term interest rates, which contributed to higher net interest margins (NIMs). Credit quality ratios, including early-stage delinquency rates (loans 30-89 days past due), late-stage delinquency rates (loans at least 90 days past due), and charge-off rates, improved slightly during 2004.
- During 2004, reflecting strong housing markets across many parts of the nation, the growth rate of home equity loans reported by FDIC-insured institutions nationwide significantly exceeded that of credit card balances (See Chart 4). Home equity lines have become a popular source of consumer financing. Many credit card lenders are expanding into home equity lending.

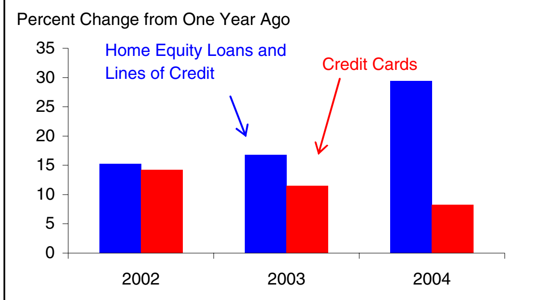
Delaware's FDIC-insured community banks reported improvement in ROA in 2004.

- During 2004, the state's community banks reported an increase in the median ROA from 0.87 percent to 1.02 percent, driven largely by wider NIMs in the second half of the year.[2] Delaware's community banks also experienced favorable credit quality conditions in 2004, reporting loan delinquency rates well below national averages.
- Margins among Delaware's community banks increased during the year. As the federal funds rate increased, improved asset yields offset slightly higher funding costs (See Chart 5). Strong loan growth and focus on commercial lending segments in the midst of rising short-term interest rates aided asset yields.
- After declining since 2001, funding costs increased slightly from record lows during 2004. Funding costs, which typically lag changes in short-term interest rates, are poised to increase in 2005 should the federal funds rate continue to rise.[3]

A continuation of strong commercial loan growth may help the state's community banks in 2005.

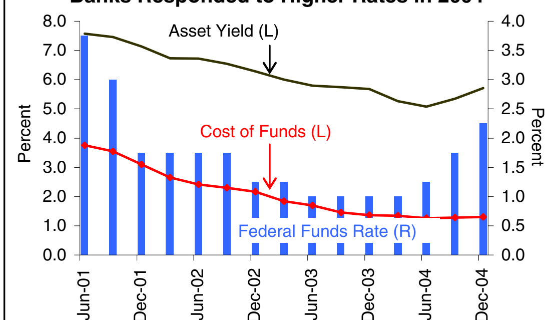
- Many of Delaware's community banks focus on commercial lending.[4] Statewide, commercial and industrial (C&I) loans increased 14 percent in 2004.[5] Commercial loan yields typically are linked to short-term interest rates and, as a result, reprice more often than some other loan types. In a rising rate environment, growth in C&I loans should help the state's community banks boost asset yields and offset increases in funding costs.

Chart 4: In 2004, Growth in Home Equity Lending Outstrips Credit Card Growth



Note: Data include loans and managed receivables for all FDIC insured institutions in the U.S. Data are as of December 31st. Source: FDIC

Chart 5: Asset Yields Among Delaware Community Banks Responded to Higher Rates in 2004



Note: Median data. Source: FDIC

[1] "Credit card lenders" are defined as insured institutions that hold at least 50 percent of assets in credit card loans and managed receivables.
[2] Analysis is for community banks unless otherwise noted. "Community banks" are defined as insured institutions that hold less than $1 billion in total assets. This definition excludes credit card banks, other specialists, and banks less than three years old.
[3] For information on recent trends in bank funding, see the FDIC Outlook – "In Focus This Quarter: Funding Asset Growth in a Rising Rate Environment: National and Regional Perspectives," Spring 2005, http://www.fdic.gov/bank/analytical/regional/ro20051q/na/t1q2005.pdf.

[4] An institution is considered to focus on commercial lending if the total of commercial and industrial and commercial real estate loans represents at least 25 percent of total assets.
[5] For information on the nationwide outlook for C&I lending, see the FDIC Outlook – "In Focus This Quarter: Commercial Lending at FDIC-Insured Institutions," Fall 2004, http://www.fdic.gov/bank/analytical/regional/ro20043q/na/index.html.

Delaware at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Total Nonfarm (share of trailing four quarter employment in parentheses)	2.1%	0.9%	-0.4%	-1.1%	0.7%
Manufacturing (8%)	-3.5%	-2.9%	-4.3%	-6.8%	-7.2%
Other (non-manufacturing) Goods-Producing (6%)	6.1%	6.6%	-4.1%	1.6%	-2.9%
Private Service-Producing (72%)	2.4%	1.2%	-0.2%	-0.8%	2.1%
Government (14%)	2.6%	-1.0%	3.0%	-0.1%	1.6%
Unemployment Rate (% of labor force)	4.1	4.0	3.9	3.6	3.4

Other Indicators	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Personal Income	N/A	6.2%	1.2%	4.1%	8.1%
Single-Family Home Permits	-5.7%	26.0%	46.0%	-4.7%	-0.3%
Multifamily Building Permits	-69.3%	343.4%	-56.1%	65.5%	217.0%
Existing Home Sales	13.0%	25.0%	-11.1%	12.5%	0.0%
Home Price Index	15.2%	10.4%	8.7%	7.7%	7.0%
Bankruptcy Filings per 1000 people (quarterly level)	1.05	1.15	1.24	1.47	1.11

BANKING TRENDS

General Information	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Institutions (#)	34	34	35	41	39
Total Assets (in millions)	436,011	216,182	193,612	188,537	164,430
New Institutions (# < 3 years)	2	4	6	8	8
Subchapter S Institutions	1	0	0	0	0

Asset Quality	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.09	1.35	1.81	1.69	2.05
ALLL/Total Loans (median %)	1.31	1.38	1.51	1.44	1.23
ALLL/Noncurrent Loans (median multiple)	3.14	2.79	2.58	2.42	1.29
Net Loan Losses / Total Loans (median %)	0.16	0.31	0.27	0.34	0.40

Capital / Earnings	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Tier 1 Leverage (median %)	10.23	10.34	11.73	10.59	12.15
Return on Assets (median %)	1.68	2.04	1.94	1.26	1.11
Pretax Return on Assets (median %)	2.51	3.11	3.23	1.99	1.67
Net Interest Margin (median %)	3.97	3.97	4.19	4.11	4.38
Yield on Earning Assets (median %)	5.17	5.67	6.27	7.43	8.25
Cost of Funding Earning Assets (median %)	1.29	1.56	2.29	3.61	4.04
Provisions to Avg. Assets (median %)	0.13	0.15	0.27	0.32	0.27
Noninterest Income to Avg. Assets (median %)	1.57	2.15	1.64	1.33	1.60
Overhead to Avg. Assets (median %)	3.25	3.54	3.50	3.88	4.16

Liquidity / Sensitivity	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Loans to Assets (median %)	71.0	65.3	66.7	55.6	64.4
Noncore Funding to Assets (median %)	27.5	37.5	34.5	27.2	22.8
Long-term Assets to Assets (median %, call filers)	10.2	11.5	14.3	6.5	10.0
Brokered Deposits (number of institutions)	19	17	19	20	17
Brokered Deposits to Assets (median % for those above)	4.7	7.5	7.8	7.6	8.4

Loan Concentrations (median % of Tier 1 Capital)	Q4-04	Q4-03	Q4-02	Q4-01	Q4-00
Commercial and Industrial	30.6	18.1	21.1	3.2	6.2
Commercial Real Estate	75.2	39.7	12.7	8.6	24.6
Construction & Development	2.3	1.3	0.1	0.0	0.1
Multifamily Residential Real Estate	0.7	0.7	1.4	0.0	0.0
Nonresidential Real Estate	51.1	37.7	8.5	5.1	24.6
Residential Real Estate	191.3	182.3	173.3	95.6	88.1
Consumer	23.8	27.9	36.5	41.1	53.0
Agriculture	0.8	0.8	0.7	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	153	181,748
Dover, DE	10	1,376

Asset Distribution	Institutions
< $250 mil.	7 (20.6%)
$250 mil. to $1 bil.	9 (26.5%)
$1 bil. to $10 bil.	11 (32.4%)
> $10 bil.	7 (20.6%)